

HERSHEY CHOCOLATE CORPORATION AND SUBSIDIARY COMPANIES



CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1938

AND

SUMMARIES OF CONSOLIDATED PROFIT AND LOSS ACCOUNT AND CONSOLIDATED
EARNED SURPLUS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1938

TOGETHER WITH

AUDITORS' REPORT

MRS
CORP. FILE

HERSHEY CHOCOLATE CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET -- DECEMBER 31, 1938

ASSETS

CURRENT ASSETS:

| | | |
|---|-----------------|------------------------|
| Cash | | \$ 622,764.28 |
| Accounts receivable | \$ 1,714,845.36 | |
| Less - Reserve for bad debts and discounts | 148,032.32 | 1,566,813.04 |
| Raw materials, goods in process and finished goods, quantities and condition determined by company; valued at the lower of cost or market | | 8,889,470.56 |
| Total current assets | | <u>\$11,079,047.88</u> |

SUPPLY INVENTORIES, PREPAID EXPENSES, ETC.:

| | | |
|---|---------------|------------|
| Supplies and repair parts | \$ 308,871.30 | |
| Prepaid shipping expenses and insurance, salesmen's advances, etc. | 156,511.12 | 465,382.42 |

PLANT AND PROPERTY:

| <u>Particulars</u> | <u>Cost</u> | <u>Reserves for Depreciation</u> | <u>Net</u> |
|---|------------------------|----------------------------------|------------------------|
| Land | \$ 122,512.39 | \$ - | \$ 122,512.39 |
| Buildings and improvements | 8,382,216.77 | 3,345,581.03 | 5,036,635.74 |
| Machinery, equipment and fixtures | 12,312,983.19 | 7,483,765.43 | 4,829,217.76 |
| | <u>\$20,817,712.35</u> | <u>\$10,829,346.46</u> | \$ 9,988,365.89 |
| Construction in progress | | | 73,736.68 |
| | | | <u>10,062,102.57</u> |
| | | | <u>\$21,606,532.87</u> |

LIABILITIES

CURRENT LIABILITIES:

| | |
|--|------------------------|
| Bank loans | \$ 2,400,000.00 |
| Due to affiliated company | 661,192.01 |
| Accounts and wages payable | 1,014,375.02 |
| Dividends payable February 15, 1939 on convertible preference and common stock | 1,021,999.75 |
| Reserve for Federal and state taxes (subject to review by taxing authorities) | 1,368,249.20 |
| Reserve for market decline in purchase commitments | 104,823.12 |
| Total current liabilities | <u>\$ 6,570,639.10</u> |

CAPITAL STOCK AND SURPLUS (Note):

| | | | |
|--|------------------|------------------------|------------------------|
| Convertible preference stock (without par value) - | | | |
| Authorized and issued, 350,000 shares of which 78,649 shares have been converted into common stock | | | |
| Issued and outstanding, 271,351 shares (including 17,507 shares held in treasury) at stated value | \$ 271,351.00 | | |
| Common stock (without par value) - | | | |
| Authorized, 1,000,000 shares of which 271,351 shares are reserved for conversion of convertible preference stock | | | |
| Issued and outstanding, 728,649 shares (including 42,900 shares held in treasury) at stated value | | 728,649.00 | |
| | | <u>\$ 1,000,000.00</u> | |
| Surplus at organization | | 3,297,212.48 | |
| Earned surplus | | 14,534,128.98 | |
| | | <u>\$18,831,341.46</u> | |
| Deduct - Hershey Chocolate Corporation treasury stock -- at cost - | | | |
| Convertible preference stock | -- 17,507 shares | \$ 1,287,635.19 | |
| Common stock | -- 42,900 shares | 2,507,812.50 | 3,795,447.69 |
| | | | <u>15,035,893.77</u> |
| | | | <u>\$21,606,532.87</u> |

NOTE: The convertible preference stock is entitled to cumulative dividends at the rate of \$4.00 per share per annum, plus an extra dividend of \$1.00 per share in any year in which dividends are declared (or paid) on the common stock. Upon any distribution of capital assets, the convertible preference stock is entitled to receive \$50.00 per share (amounting in the aggregate to \$12,692,200.00 on the basis of the convertible preference shares outstanding, exclusive of treasury shares, at December 31, 1938 or \$12,438,356.00 in excess of the stated value of such shares) and accumulated and unpaid dividends (if any) before any distribution to the common stock, and shares equally with the common stock in any distribution of the balance until the convertible preference stock shall have received a total of \$100.00 per share and accumulated and unpaid dividends (if any). Counsel for the company have advised that, in their opinion, there are no restrictions upon the surplus of the company by reason of the excess of the preference of the convertible preference shares in any distribution of the capital assets of the company over the stated value of such shares. The surplus accounts, however, are restricted to the extent of the cost of the treasury stock.

HERSHEY CHOCOLATE CORPORATION AND SUBSIDIARY COMPANIES

SUMMARY OF CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1938

| | | |
|--|-------------------|------------------------|
| GROSS PROFIT ON SALES (Exclusive of inventory adjustments shown below) .. | | \$11,098,188.94 |
| SHIPPING, SELLING, ADMINISTRATIVE AND GENERAL EXPENSE | | <u>5,066,038.10</u> |
| | | \$ 6,032,150.84 |
| OTHER INCOME--NET: | | |
| Profit from scrap and creamery products, discounts and other miscellaneous income (net) | \$ 261,294.92 | |
| Less - Interest charges (\$140,060.27) and loss on retirement of fixed assets (\$39,655.07) | <u>179,715.34</u> | <u>81,579.58</u> |
| Net profit before inventory adjustments shown below and provision for income taxes | | \$ 6,113,730.42 |
| DEDUCT - Adjustment to reduce inventory from cost to lower of cost or market at December 31, 1938 (\$795,352.69) and provision for market decline in purchase commitments (\$104,823.12) | | <u>900,175.81</u> |
| Net profit before provision for income taxes | | \$ 5,213,554.61 |
| PROVISION FOR INCOME TAXES: | | |
| Federal income tax | \$ 835,300.00 | |
| Commonwealth of Pennsylvania income tax | <u>252,000.00</u> | <u>1,087,300.00</u> |
| Net profit carried to earned surplus | | <u>\$ 4,126,254.61</u> |

SUMMARY OF CONSOLIDATED EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1938

| | | |
|---|---------------------|------------------------|
| Earned surplus at December 31, 1937 | | \$13,734,341.37 |
| Net profit for the year ended December 31, 1938 | | <u>4,126,254.61</u> |
| | | \$17,860,595.98 |
| Dividends: | | |
| Convertible preference stock | \$ 1,269,220.00 | |
| Common stock | <u>2,057,247.00</u> | <u>3,326,467.00</u> |
| Earned surplus at December 31, 1938 | | <u>\$14,534,128.98</u> |

NOTE: Costs and expenses include provision for depreciation on plant and equipment in the amount of \$786,123.59.

OFFICERS
M. S. Hershey, Chairman of Board of Directors
William F. R. Murrie, President
Ezra F. Hershey, Treasurer
W. S. Crouse, Secretary
O. E. Bordner, Comptroller

DIRECTORS
M. S. Hershey, Hershey, Pa.
William F. R. Murrie, Hershey, Pa.
Ezra F. Hershey, Hershey, Pa.
P. A. Staples, Central Hershey, Cuba
L. W. Majer, Hershey, Pa.

ARTHUR ANDERSEN & Co.
67 WALL STREET, NEW YORK

AUDITORS' REPORT

To Hershey Chocolate Corporation:

We have made an examination of the consolidated balance sheet of the Hershey Chocolate Corporation (a Delaware corporation) and Subsidiary Companies as at December 31, 1938, and of the summaries of consolidated profit and loss and earned surplus accounts for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related summaries of consolidated profit and loss and earned surplus accounts (including the notes thereto) fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at December 31, 1938, and the results of their operations for the year ended that date.

New York, N. Y., February 25, 1939.

ARTHUR ANDERSEN & CO.



Our Stockholders, as individuals, can greatly advance the Company's interest and their own, by using **HERSHEY'S** Products in their homes and recommending them to others.

